

Message Text

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LIMDIS

DEPT PASS SENATOR PERCY

E O 11652 : GDS

TAGS: PFOR, EGEN, IS

SUBJECT: SENATOR PERCY'S DISCUSSIONS ON ECONOMIC
SITUATIONS

1. SUMMARY: IN COURSE OF VISIT TO ISRAEL SENATOR PERCY
DISCUSSED ECONOMIC SITUATION IN MEETINGS WITH FINMIN
RABINOWITZ AND GOI ENERGY ADVISER DINSTEIN.
RABINOWITZ DESCRIBED GREAT DIFFICULTIES FACING ISRAEL AND
CONSEQUENT NEED FOR U.S. AID. SENATOR POINTED OUT DOMESTIC
ECONOMIC PROBLEMS OF U.S. AND GROWING FEELING IN U.S.
THAT ISRAEL SHOULD NOT MISS PRESENT OPPORTUNITY FOR
ADDITIONAL MOVEMENT TOWARD PEACE SETTLEMENT. IN SEPARATE
CONVERSATION DINSTEIN OUTLINED ISRAEL'S TOTAL DEPENDENCE
ON OIL FROM IRAN AND SINAI. ACCESS TO OIL AND END TO
ECONOMIC BELLIGERENCY ARE THEREFORE ESSENTIAL PARTS OF ANY
NEW NEGOTIATIONS. END TO ECONOMIC BELLIGEERENCY WOULD ALSO
HAVE TO INCLUDE RIGHT TO NONDISCRIMINATORY SHIPMENT
OF GOODS THROUGH REOPENED SUEZ CANAL. END SUMMARY.

2. DURING VISIT TO ISRAEL SENATOR PERCY HAD DISCUSSIONS
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ON ECONOMIC SITUATION WITH FINMIN RABINOWITZ

AND GOI ENERGY ADVISER DR. ZVI DINSTEIN. PARTICIPANTS
IN FORMER MEETING INCLUDED FINMIN DIRECTOR
GENERAL AGMON AND ISRAEL EMBASSY ECON MINISTER SHER.

3. RABINOWITZ BEGAN MEETING BY DESCRIBING PRESENT ECONOMIC
SITUATION. ISRAEL HAS TWO ACUTE PROBLEMS, INFLATION AND
BALANCE-OF-PAYMENTS DEFICIT. SOURCES OF LATTER ARE PRINCIPALLY
HIGH DEFENSE EXPENDITURES, COSTS OF IMMIGRANT ABSORPTION,
AND HIGHER WORLD PRICES FOR NECESSARY FOOD AND FUEL
IMPORTS. BOP CURRENT ACCOUNT DEFICIT WHICH PRE-WAR WAS
DOLS 1 BILLION/YEAR IS NOW DOLS 3.5 BILLION/YEAR. DEFENSE COSTS
ARE DOLS 1 BILLION ABOVE WHAT ISRAEL GETS IN AID FROM U.S.
PRE-WAR LEVEL OF DEFENSE EXPENDITURES WAS EQUIVALENT TO
17 PERCENT OF GNP. IN 1975 DEFENSE WILL BE EQUIVALENT TO 33
PERCENT OF GNP AND ACCOUNT FOR APPROXIMATELY 40 PERCENT OF GOI
BUDGET.

BASIC FOOD IMPORTS WHICH COST DOLS 150 MILLION/YEAR PRE-WAR
NOW COST DOLS 800 MILLION/YEAR. OIL IMPORTS COST DOLS 100 MILLION/
YEAR BEFORE WAR, DOLS 700 MILLION/YEAR NOW. TOTAL INCREASE IN
JANUARY TO OCTOBER, 1974 RESERVES SHRANK BY DOLS 800 MILLION.
ISRAEL HAS TAKEN STRONG MEASURES, IN JULY AND IN NOVEMBER,
TO CURB OUTFLOW OF RESERVES, AND POSITIVE SIGNS ARE NOW
BEGINNING TO APPEAR. RABINOWITZ COMMENTED THAT HOWEVER
DIFFICULT CURRENT U.S. ECONOMIC SITUATION MIGHT BE,
ISRAELI POPULATION WAS HAVING TO MAKE MUCH GREATER
SACRIFICES.

4. SENATOR PERCY REPLIED THAT ISRAEL SHOULD UNDERSTAND
THAT FOR FIRST TIME ALL AMERICAN FAMILIES ARE EXPECTING
TO SEE THEIR STANDARD OF LIVING DECLINE NEXT YEAR, AND THIS
IS QUITE A SHOCK FOR U.S. AMERICAN PEOPLE ARE ASKING, IF
THERE HAD NOT BEEN MID EAST CONFLICT, WOULD WORLD ECONOMY
NOW BE IN THIS POSITION. SENATOR REPORTED THAT RIGHTLY
OR WRONGLY THIS WAS ONE OF CAUSES OF WORLD ANIMOSITY TOWARD
ISRAEL HE HAD EXPERIENCED AS DELEGATE TO U.N.

5. SENATOR INQUIRED WHAT COST TO ISRAEL WAS OF ABSORBING
SOVIET AND OTHER IMMIGRANTS. RABINOWITZ REPLIED THAT
ISRAEL EXPECTS 20,000 NEW IMMIGRANTS NEXT YEAR OVER AND ABOVE
THOSE FROM SOVIET UNION, AND THAT ABSORPTION COST IS DOLS
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50,000 PER FAMILY. ISRAEL'S POLICY IS TO KEEP GATES OPEN,
ESPECIALLY TO THOSE WHO HAVE WAITED LONG TIME FOR CHANCE TO COME.
WHATEVER COST REQUIRED WILL BE PAID BY GOI, ALTHOUGH ASSUMPTION
IS THAT NEW HUMAN RESOURCES WILL LEAD TO NET POSITIVE
IMPACT ON ECONOMY IN LONG RUN.

6. IN RESPONSE TO SENATOR'S QUESTION CONCERNING GOI PLANS
FOR FINANCING BUDGET AND BOP DEFICITS IN COMING YEAR,

RABINOWITZ CITED FOUR SOURCES: U.S. AID, CONTRIBUTIONS FROM WORLD JEWRY, CAPITAL TRANSFERS, SUCH AS GERMAN PAYMENTS, AND BORROWING. SENATOR PERCY TOLD RABINOWITZ THAT U.S. CONGRESS WOULD BE LOOKING AT ISRAEL'S AID REQUEST VERY CAREFULLY. SENATOR STATED THAT ATTITUDES IN U.S. WERE CHANGING. FEELING WAS GROWING THAT ISRAEL HAD MISSED OPPORTUNITIES IN PAST TO MOVE TOWARD PEACE, AND PRESENT ARAB LEADERS SUCH AS SADAT AND HUSSEIN HAD PROJECTED GOOD AND MODERATE IMAGE IN U.S. THERE WAS GRAVE CONCERN THAT ISRAEL WILL STUMBLE INTO ANOTHER WAR, AND THIS CONCERN WAS ONLY ACCENTUATED BY MULTI-BILLION DOLLAR ARMS REQUEST. KISSINGER HAS UNUSUALLY HIGH DEGREE OF SUPPORT FROM AMERICAN PEOPLE, AND ISRAEL SHOULD RECOGNIZE AND NOT MISS PRESENT OPPORTUNITY FOR ADDITIONAL MOVEMENT TOWARD PEACE SETTLEMENT.

7. IN RELATED CONVERSATION DR ZVI DINSTEIN, ADVISER ON ENERGY TO MINISTRY OF FINANCE, TOLD SENATOR THAT ISRAEL IS TOTALLY DEPENDENT ON ONLY TWO SOURCES OF OIL, IRAN AND SINAI FIELDS. CONSUMPTION IS CURRENTLY 160,000BBL/DAY OF WHICH 90,000 COMES FROM SINAI. SENATOR ASKED WHETHER IAN HAD GIVEN ASSURANCES THAT OIL WOULD NOT BE CUT OFF IN CASE OF ANOTHER WAR, TO WHICH DINSTEIN REPLIED AFFIRMATIVELY. HE SAID, HOWEVER, THAT PRESSURES ON IRAN WOULD BE VERY GREAT, AND THAT IN ADDITION BAB-EL-MANDEB STRAITS MIGHT BE BLOCKADED. IT WAS THEREFORE IMPOSSIBLE TO EXAGGERATE IMPORTANCE TO ISRAEL OF SINAI FIELDS. FOR THIS REASON, DINSTEIN FELT, ISSUE OF ECONOMIC BELLIGERENCY MUST BE CLOSELY TIED TO ANY NEGOTIATIONS ON WITHDRAWAL IN SINAI.

8. SENATOR TOLD DINSTEIN THAT HE HAD HEARD SUBJECT OF OIL FOR ISRAEL MENTIONED DURING HIS VISIT TO IRAN, WHERE HE WAS TOLD THAT IN EVEN OF WAR SYMPATHIES OF IRAN WOULD
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DEFINITELY BE WITH ARABS. THERE WAS DOUBT WHETHER IRAN COULD RESIST PRESSURE TO CUT OFF OIL TO ISRAEL, ALTHOUGH SENATOR NOTED THAT SHAH HIMSELF HAD BEEN SOMEWHAT LESS NEGATIVE.

9. IN RESPONSE TO SENATOR'S QUESTION ON IMPORTANCE TO ISRAEL OF REOPENING OF SUEZ CANAL, DINSTEIN SAID IT WAS QUITE IMPORTANT TO ISRAEL'S COMPETITIVE EXPORT POSITION. AS PROCESSING ECONOMY, ISRAEL IS GREATLY AFFECTED BY PRIES OF RAW MATERIALS AND SEMI-FINISHED GOODS IT IMPORTS. AT PRESENT EUROPEAN COMPETITORS PAY SAME PRICES AS ISRAEL FOR GOODS SHIPPED AROUND AFRICA, AND OPENING OF CANAL TO ALL BUT ISRAELI CARGOES WOULD GREATLY UNDERMINE ISRAEL'S COMPETITIVE POSITION IN MANY PRODUCTS. DINSTEIN THEN REITERATED HIS POINT THAT END TO ECONOMIC BELLIGERENCY

WAS CRUCIAL IN ANY NEW NEGOTIATIONS. ISRAEL'S
ECONOMY IS EXTREMELY VULNERABLE AND NEEDS BOTH
GUARANTEED ACCESS TO OIL AND RIGHT OF NONDISCRIMINATORY
SHIPMENT OF GOODS THROUGH REOPENED SUEZ CANAL.

10. COMMENT: SENATOR DID NOT HAVE OPPORTUNITY TO REVIEW
FOREGOING BEFORE DEPARTURE. ADDRESSEES SHOULD KEEP IN MIND,
THEREFORE, THAT IT IS SUBJECT TO REVISION AFTER SENATOR
PERCY'S REVIEW.
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